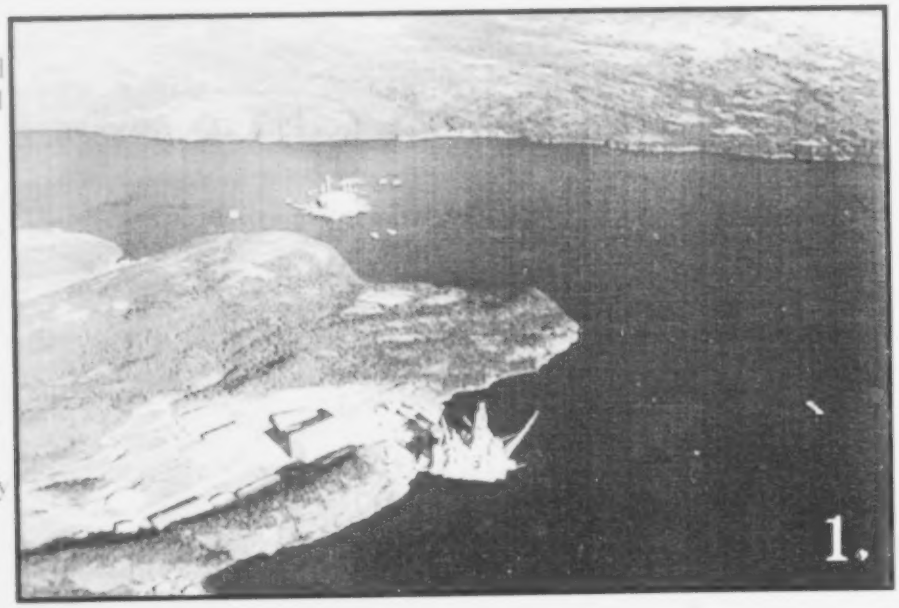
January 1998

Economic Prospects

ECONOMICS & STATISTICS
Department of Finance

A Review and Outlook for Newfoundland and Labrador

The National Scene

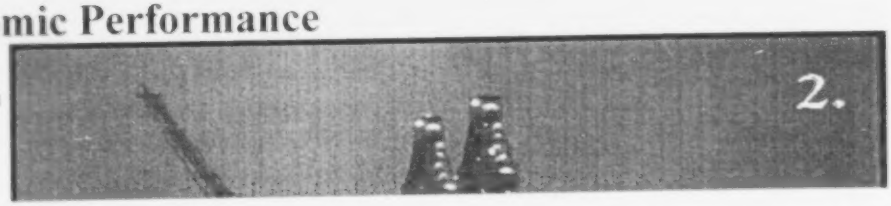


The Canadian economy is estimated to have grown by 4.0 percent in real terms in 1997, marking its sixth consecutive year of economic expansion. Growth was fuelled mainly by investment and domestic consumption sustained by lower interest rates, growing exports and rising employment. Employment increased by 1.9 percent on an annual average basis last year, marking the strongest employment growth in three years. As employment expanded more rapidly than the labour force, the unemployment rate declined and towards year end had fallen below the nine percent mark.

By region, economic growth in 1997 was strongest in Ontario and the Western Provinces particularly Alberta. With the exception of British Columbia, where economic growth has slowed recently, all western provinces recorded three percent growth or better according to current estimates. Quebec and the Atlantic Region lagged behind other regions of the Country; with Newfoundland and Labrador demonstrating the greatest economic weakness.

An improved economic performance combined with fiscal restraint measures implemented by governments at both the provincial and national levels have improved the budgetary picture across Canada. Nationally, it is expected that the Federal Government will table a balanced budget in the upcoming fiscal year, marking the first balanced budget in nearly 30 years. At the provincial level, most governments have recently implemented significant tax cuts, with many intending to implement further cuts this year.

1997 Provincial Economic Performance



Despite the general improvement in many of the Province's industries, low interest rates, and the general

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upswing in economic activity nationwide, the Province's economy contracted in 1997, primarily because of the scheduled slowdown and eventual winding down of construction work on the Hibernia Gravity Based Structure. Other factors such as ongoing public sector restraint and continued high levels of out-migration also contributed to the decline.

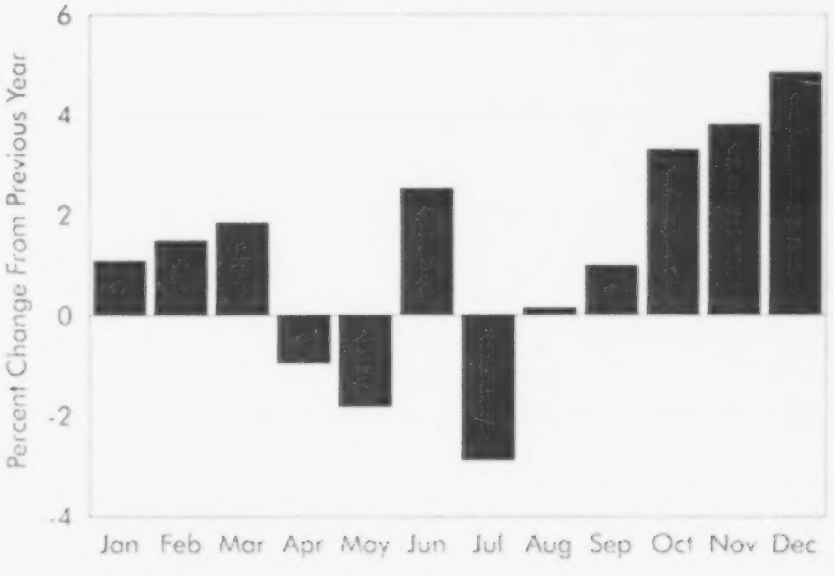
Real Provincial Gross Domestic Product (GDP) fell by an estimated 1.3 percent last year. Despite the fact that average employment related to the Hibernia project was approximately 3,000 person-years lower in 1997 than in 1996, the economy demonstrated a fair degree of resilience, and sizable employment gains were recorded toward year's end.
Employment rose in each of the last five months of 1997, and in December recorded the strongest monthly employment performance thus far in the 1990s. Employment in December grew by 4.8 percent compared with the same month in the previous year, representing the second best performance among the provinces. Overall, employment rose by 1.1 percent in 1997 on an annual average basis, according to Statistics Canada estimates at year end.

The combination of higher employment levels and the introduction of the Harmonized Sales Tax in April 1997 is credited with having a stimulative effect on consumer and business spending. In the first ten months of 1997, retail trade grew by 6.6 percent representing the strongest growth rate in eight years. The largest contribution to the growth in retail sales related to new automobile sales which rose 32.6 percent in the first ten months. Investment in machinery and equipment also increased, reflecting a higher level of business confidence.

Overall, investment in 1997 rose by approximately 6.4 percent from the previous year. Gains in business investment on large oil and mining projects (e.g., construction of the transhipment facility, preliminary work on the Voisey's Bay nickel deposit, and the Terra Nova oil project) as well as higher public sector capital expenditures were tempered somewhat by declines in residential investment. New home construction fell in 1997. It is estimated that housing starts numbered 1,700 last year, down by about 16.4 percent from the previous year.

Highlights of 1997

Employment Picked Up Steam in Later Part of the Year



Source: Statistics Canada Labour Force Survey

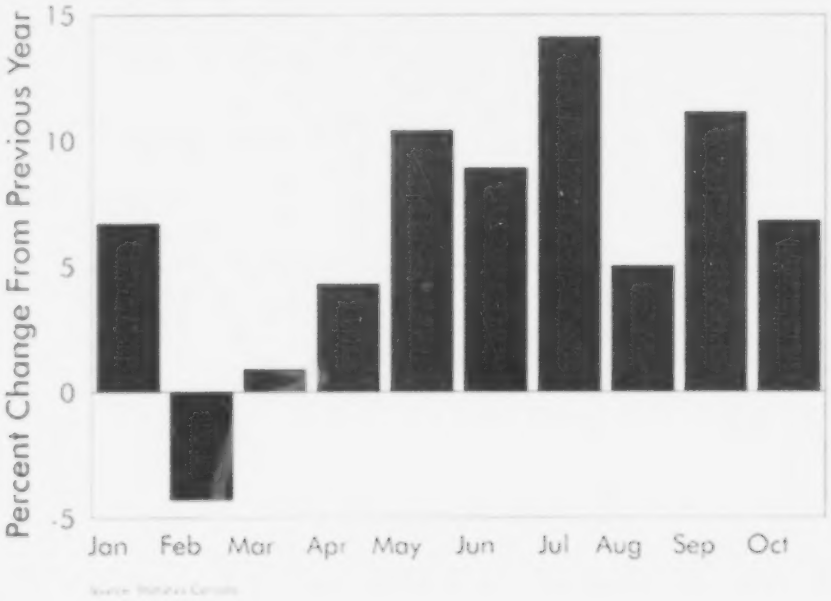
Export Sector Performed Strongly

The Province's economic performance was aided not only by higher consumption and investment but by higher exports as well. Real exports are estimated to have risen by 7.9 percent over the previous year. The increase was broadly based and included higher exports of fish, minerals, newsprint and refined petroleum; increased tourist receipts; and the first shipment of Hibernia crude.

The fishing industry turned in another solid performance and is expected to post an output gain for the third consecutive year. The quantity of landings for the first eleven months of 1997 rose by approximately 12.4 percent, buttressed mainly by higher quotas and catches of cod, crab and shrimp. The value of landings during this period also rose. The industry continues to post gains in the aquaculture sector and in the production of higher value secondary production.

The mining industry recorded a good performance in 1997. Last year, the value of minerals rose for the fifth consecutive year, by 9.4 percent to just over $1 billion dollars. Gains were supported primarily by a substantial increase in the volume of iron ore shipments and some improvement in iron ore product prices. Employment for the industry was relatively stable on a year-over-year basis despite some mine openings and closures. Exploration activity fell, relative to 1996, but remains high in an historical context.

Retail Trade Grew Strongly



The forestry sector, which is dominated by the output from the newsprint mills, also recorded a solid performance as reflected in the quantity of newsprint shipped. Newsprint shipments posted a gain of almost four percent in 1997, rising to approximately 740,900 tonnes compared to about 713,700 in 1996. The lumber industry is also believed to have recorded a performance last year that was at least comparable to the previous year.

The newsprint industry continues to make investments in plant and equipment as part of its ongoing efforts to improve efficiency, output capacity and market access. Following a solid performance in 1997, newsprint shipments from the Province are expected to improve modestly in 1998. Anticipated strength in newsprint demand and higher average prices support this outlook, providing a cautiously optimistic backdrop for the year.

The Province's exports were given a boost in 1997 by the production and shipment of 839,000 barrels of oil from Hibernia. Other continuing oil related activity ensures that this industry will remain very dynamic in the short-term with excellent growth prospects for the long term.

Exploration activity, for example, is on the rise, with activity both on the Grand Banks and in western Newfoundland. The 1997 Call for Bids for exploration rights in the Newfoundland offshore received bids on all seven parcels offered. Four of the parcels are located in the Jeanne d'Arc Basin on the Grand Banks and three are located off the West Coast of Newfoundland. Bids representing a total work expenditure commitment of $98 million were selected for the seven parcels.

As well, activity related to the development of the Terra Nova oil field continues to gain momentum. The Canada-Newfoundland Offshore Petroleum Board approved the development of the Terra Nova oil field on January 15th, 1998. The Terra Nova Alliance selected Seacore Limited for the construction of glory holes for

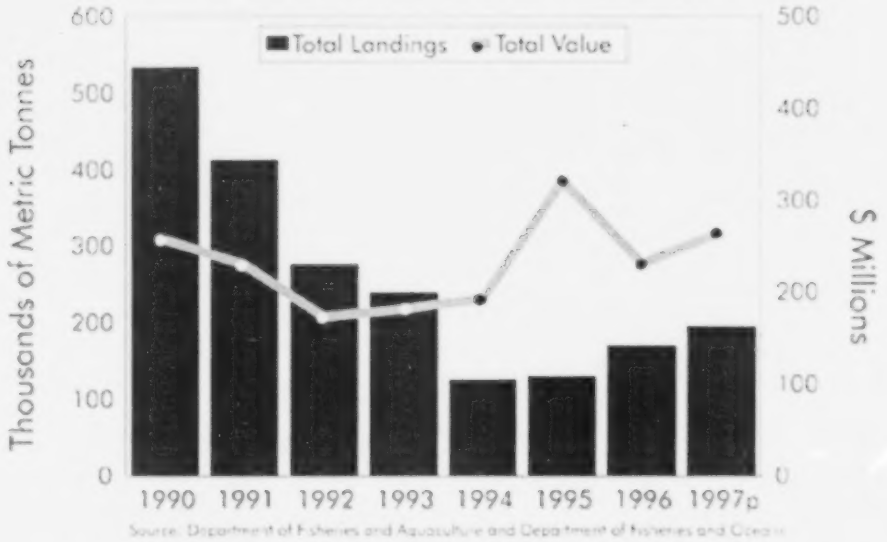
the project. Glory holes will protect wellheads and subsea templates from scouring icebergs — construction will begin later this year. The process to select a proponent to design and construct the steel hull for the floating production platform has been completed, and the remaining detailed engineering, fabrication and construction is expected to commence in 1998. Well drilling, ultimately for production purposes, is expected to begin in 1999.

The tourism sector also posted a strong performance with non-resident visits by air up 23 percent in the first nine months of 1997 and visits by automobile up by 14 percent over the comparable period of the previous year. At the same time the number of residents leaving the Province by automobile declined seven percent suggesting that many residents of the Province decided to stay at home for the celebrations instead of spending their tourist dollars elsewhere. Moreover, the Cabot Celebrations generated considerable publicity and market awareness which will serve businesses in the tourism sector well in the future.

Outlook at the National Level

The Canadian economy in 1998 is expected to slow from the pace recorded in 1997 but nevertheless remain strong by most standards. A 3.1 percent increase in GDP is expected to be accompanied by fairly strong job growth that should cause the unemployment rate to be in the 8.5 - 9.0 percent range.

Volume of Fish Landings Continue to Rise



Source: Department of Fisheries and Aquaculture and Department of Fisheries and Oceans

Interest rates are expected to rise in 1998 given the recent surge in economic activity in Canada and the expectation that interest rates in the United States are likely to rise soon. Combined with the dollar's current weakness, many analysts feel interest rates will end this year in a slightly higher position.

The United States is Canada's most important trading partner, and is an important market for exports from Newfoundland and Labrador. Recent depreciation in the value of the Canadian dollar vis-a-vis the United States' dollar supports the near-term competitive position of provincial exporters.

In the long-term, a superior inflation performance coupled with improving fiscal circumstances across the public sector supports a strengthening dollar. In the short-term, however, higher imports due to strong domestic demand and weaker commodity prices are exerting downward pressure on the Canadian dollar. While the dollar is expected to rise only marginally in value against its US counterpart over the next year, it should strengthen considerably in the longer term.

Unlike 1997, growth among the regions this year is expected to be more balanced; in particular, the Province's

economy, which was weakest in 1997, is expected to post the strongest growth rate of all provinces in 1998.

Provincial Economic Outlook 1998

It is expected that this year will mark the beginning of a period of continued and sustained economic growth. Many forecasters believe, and a consensus is emerging, that this Province will lead the nation in economic growth in 1998.

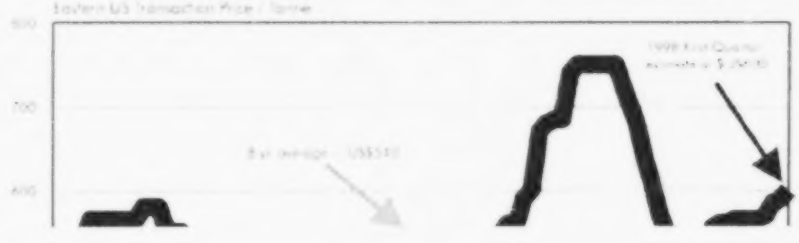
This growth will help reverse the loss to the economy inflicted by the closure of groundfish stocks in the early 1990s. The important Northern Cod stock may remain closed to commercial fishing for a number of years to come. Growth in other areas of the fishery and in the rest of the economy, however, are expected to lead to job and income gains for residents as well as boost consumer and business confidence.

Expansion Lead by Major Projects

While major projects such as oil and major mineral projects will be the main engines of economic growth, other sectors are expected to contribute as well and thus the gains are expected to be broadly based. The fishery, for instance, which in recent times has had a tumultuous history, is posting strong gains. This is happening due to the development of other species, advances in aquaculture, and, the production of higher-valued products. Mining is also expected to continue to post increases as production from new and existing mines rises to compensate for closures, particularly in the gold sector.

Because of the capital required to put major oil and mineral projects into production, growth in the economy will be shared by both those who have put up the investment funds and those who will be employed to work on the projects. Thus GDP growth is expected to exceed employment growth as a large share of the income generated by these projects accrue to capital. Large project developments, however, combined with a host of other positive developments will cause personal income to rise and this should facilitate improvement in both investment and consumption patterns.

Newsprint Prices Head Higher



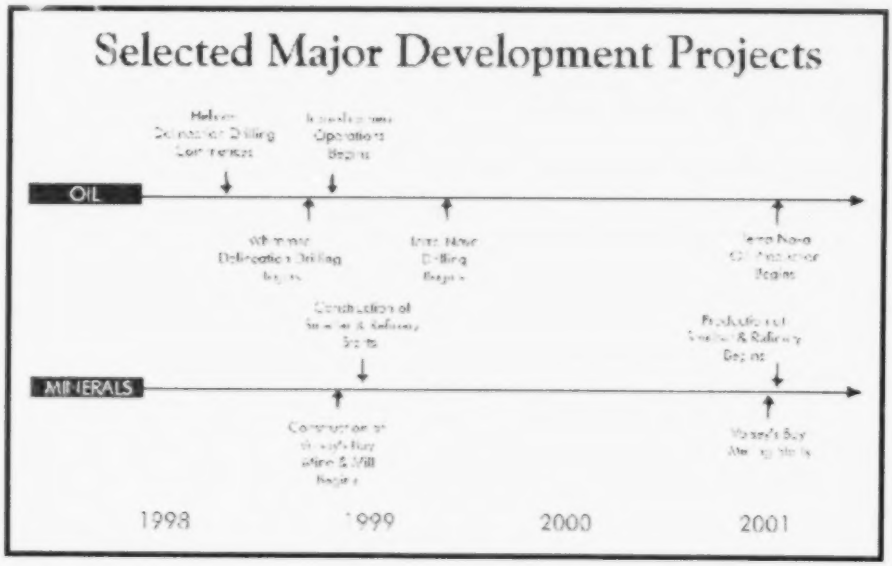
While the economic outlook for the Province is very positive, there will continue to be challenges in the long term particularly in the area of demographics. Out-migration has reached historically high levels over the past few years, resulting in declines in the size of the Province's

population. While local economic growth will serve to reduce out-migration, the strength of the national economy and labour markets is expected to continue to encourage out-migration in the future as it has in the past. Thus it may be several years before we can expect migration to return to levels more consistent with historical experience. Aging of the population will also present challenges over the long term, particularly for Government spending in the social sectors.

Near and medium term prospects, however, present many opportunities. For example, the Province's business costs have been independently judged to be very competitive in an international context. This favourable positioning has been aided, in part, by government's recent action to close the gap between revenues and expenditures and stabilize the fiscal environment. Finally, interest and inflation rates remain low in an historical context.

Beyond 1998

The outlook for 1999 and into the next millennium is also positive. Economic growth is expected to continue for a number of years, thanks in large part to production from and development of the offshore oil and mining industries. Steady output from the pulp and paper industry, recovering groundfish landings and gains in shrimp landings will also contribute to the improved economic picture. Economic expansion will result in employment and personal income gains and a decline in the unemployment rate.



GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

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Captions

Photos provided courtesy of Hibernia Management and Development Company Ltd.

1. Hibernia Construction Site, Bull Arm, Newfoundland. Aerial showing Camp (foreground) and Topsides Fabrication Facilities with Gravity Base Structure under construction in deepwater site (background). The site is expected to be available soon for other large scale industrial activity, possibly for work related to the Terra Nova oil project.

2. Night shot of platform. First oil production occurred November 1997.

3. The Placentia taking on supplies at the Harvey CSM offshore oil supply base in St. John's.